

84
Zeller's

**Annual Report
Rapport Annuel
1970**

Results in Brief

	1970	1969	Change
SALES	\$176,602,888	\$157,562,134	\$19,040,754
Income before Income Taxes	15,938,639	14,523,134	1,415,505
Net Income	7,578,639	6,823,134	755,505
Per Common Share59	.53	.06
Total Dividends Paid	3,426,316	3,169,818	256,498
Preferred	134,898	140,955	(6057)
Per Share	2.25	2.25	—
Common	3,291,418	3,028,863	262,555
Per Share26	.24	.02
Earnings Retained in the Business	4,152,323	3,653,316	499,007
Depreciation Charge	2,013,724	1,848,057	165,667
Employees' Compensation and Benefits	32,389,725	28,283,520	4,106,205
Percent of Sales Dollar	18.34%	17.95%	.39%
Merchandise Inventories	31,551,944	23,455,838	8,096,106
Accounts Receivable (Net)	31,511,718	30,427,188	1,084,530
Working Capital	40,330,739	39,263,167	1,067,572
Common Shareholders' Equity	42,716,521	38,349,280	4,367,241
Per Common Share	3.37	3.03	.34
Number of Preferred Shareholders	264	273	(9)
Number of Common Shareholders	3,990	3,928	62
Number of Stores at Year-end	129	119	10

Zeller's

Results in Brief

OFFICERS

PETER KILBURN
Chairman of the Board

JAMES G. KENDRICK
President

JAMES G. BALFOUR
Senior Vice-President, Merchandise

RICHARD W. MARVELL
Senior Vice-President, Store Expansion

WILLIAM H. BUGGS
Vice-President, Store Management

THOMAS H. BURDON
Vice-President, Personnel

A. VICTOR ROWLAND
Vice-President, Finance and Treasurer

WILLIAM W. TINMOUTH
Secretary and General Counsel

HEAD OFFICE
5115 Trans Island Avenue
Montreal 248, Quebec

TRANSFER AGENT
National Trust Company, Limited
Montreal, Toronto,
Calgary and Halifax

REGISTRAR
The Royal Trust Company
Montreal, Toronto,
Calgary and Halifax

STOCK EXCHANGES
Montreal and Toronto

DIRECTORS

*PETER KILBURN, Chairman of the Board
Chairman
Greenshields Incorporated, Montreal, Que.

*JAMES G. KENDRICK
President
Zeller's Limited, Montreal, Que.

JAMES G. BALFOUR
Senior Vice-President
Zeller's Limited, Montreal, Que.

RALPH B. BRENNAN
President
G.E. Barbour Company Limited, Saint John, N.B.

*DONALD N. BYERS, Q.C.
Partner
Byers, McDougall, Casgrain & Stewart,
Montreal, Que.

*ROLAND CHAGNON
President
Lallemand Inc., Montreal, Que.

JOHN G. CURTIN
Vice-President
W.T. Grant Company, New York, N.Y.

GRAHAM R. DAWSON
President
Dawson Construction Limited, Vancouver, B.C.

JAMES GILLIES, Ph.D.
Dean
Faculty of Administrative Studies
York University, Downsview, Ont.

RICHARD W. MARVELL
Senior Vice-President
Zeller's Limited, Montreal, Que.

*RICHARD W. MAYER
President
W.T. Grant Company, New York, N.Y.

EDWARD STALEY
Chairman
W.T. Grant Company, New York, N.Y.

EDGAR F. TOLHURST
Honorary Chairman
Tolhurst Petroleum Limited, Montreal, Que.

*Member of the Executive Committee
of the Board of Directors

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to be opened in 1971 will again be of the new, large, suburban department store type. Included in the Company's expansion plans for 1971 is the relocation of the Head Office in Montreal. The new location is on Decarie Boulevard, within a short distance of our present offices. We will initially occupy six floors of a seven floor building that will be known as the Zeller Building to bring together our administrative and buying departments now dispersed in four separate locations.

Mr. E. Leonard Boultbee and Mr. R. James Pinchin submitted their resignations as members of the Board of Directors of Zeller's Limited on March 12, 1970, in accordance with their wishes to reduce the extent of their business activities. The contributions of these two gentlemen to the Board will be greatly missed by their fellow Directors. Mr. Graham R. Dawson of Vancouver, British Columbia and Dr. James Gillies of Toronto, Ontario were elected to the Board of Directors at a meeting of common shareholders on September 17, 1970.

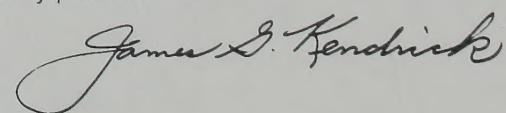
Mr. Edmund G. Collard, Q.C., Secretary and General Counsel of Zeller's Limited since 1939 retired during the year. Subsequently, Mr. William W. Timmouth was appointed to replace Mr. Collard.

The Company's employees now number nearly 9,500, of whom 375 serve at the Company's Head Office and the remainder in its stores. During the year 1970, 79 men in training were promoted to the position of assistant store managers and 26 assistant store managers in turn became store managers. The Management Training Programme which has been in effect for many years, prepares those who have demonstrated the requisite

capacity for promotion to the positions of store manager, division manager, or to a post as an executive at the Company's Head Office. The 1970 recruiting programme resulted in the hiring of 172 men from various colleges and high schools throughout Canada. At the end of 1970, the Company had a total of 278 men in training for store management or other positions of responsibility.

The performance of the Company in 1970 and its continued success and expansion is a measure of the efforts and dedication of its employees, to whom we express our thanks. The confidence and loyalty of our customers, shareholders, and suppliers makes our success possible and we express our thanks to them, with the pledge that we will do our best to justify their continued acceptance.

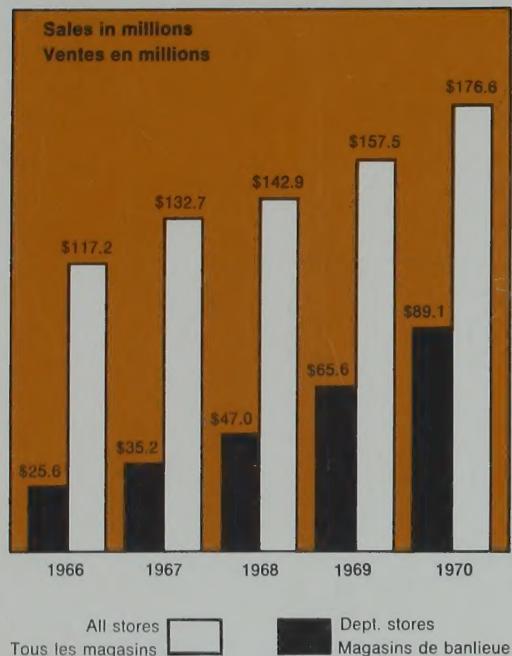
Everyone associated with the Company is determined and confident that it will continue to develop with the changing times. We continue to be confident of the basic strength of the Canadian economy and its capacity for growth and development. The loyalty and expertise of our employees, our financial strength, and our commitment to an aggressive expansion programme justify the Company in its confidence that it will continue to advance and take advantage of every opportunity presented to it.



Montreal, Quebec,
March 11, 1971.

James G. Kendrick

The President's Report



Zeller's Limited sales and net income again reached record levels in 1970 — a year marked by rising costs and a general slowing in the rate of consumer spending.

For the year ended January 31, 1971 sales amounted to \$176,602,888, an increase of \$19,040,754 or 12.1% over the prior year's sales. Included in the total figure are the sales by the Company's three credit plans, which amounted to \$33,029,925 and represented 18.7% of the Company's total volume in 1970. Credit sales were 19.3% of the Company's total volume in 1969. The thirty-seven suburban department stores in operation at the year-end contributed 50.5% of the year's total sales. In 1969 there were twenty-four of this type of store in operation and they contributed 41.7% of that year's total sales.

Net income for the year ended January 31, 1971 was \$7,578,639 for an increase of \$755,505 or 11.1% over the previous year. These earnings represent 59¢ per common share, based on the 12,667,545 shares issued at the end of the year and after the payment of the dividend on the preferred shares. In 1969 the equivalent figure was 53¢ per share with 12,636,325 shares issued. The ratio of net income to sales this year was 4.29% compared with 4.33% last year.

The annual dividend rate paid on the Company's issued common stock was raised for the seventh consecutive year during 1970. Dividends of 26¢ per share were paid during 1970 to the holders of the Company's common stock, as against 24¢ in 1969. A record total of \$3,291,418 was paid to the Company's common shareholders last year.

The Company's short-term debt at the year-end was \$12,971,000. Of this amount \$8,971,000 was provided by commercial notes issued by the Zeller's Financial Corporation Limited and backed by customer accounts receivable of Zeller's Limited. In addition, the bank lines of credit extended to Zeller's Limited and to the Financial Corporation amounted to \$30,000,000. At the year-end the Financial Corporation held \$15,139,039 of customer obligations out of a total of \$31,511,718 on the books of the parent company.

Merchandise inventories at year-end totalled \$31,551,944 and were in good relationship to planned sales. The working capital of the Company increased by \$1,067,572 over that of the prior year to a total of \$40,330,739.

In 1970 the Company successfully completed the most ambitious capital expansion programme in its history. It is described in more detail later in this Report. In total 900,000 square feet were added to the Company's gross store area in twelve new suburban department stores and with the enlargement of two successful existing stores. Two stores were closed during the year. Capital expenditures in 1970 totalled \$4,933,944 for store fixtures and equipment.

The 1971 store expansion programme is already well underway with four new stores scheduled to open in the first half of the current year. There is every expectation of our opening as many stores in 1971 as in 1970. All of the new stores

Le programme d'expansion de 1971 est déjà bien lancé, quatre nouveaux magasins devant être ouverts au cours du premier semestre du présent exercice. Tout porte à croire que nous pourrons ouvrir autant de magasins cette année que l'an dernier. Les nouveaux établissements prévus pour 1971 seront tous du genre grand magasin moderne de banlieue. Le programme d'expansion pour 1971 comprend l'emménagement du siège social à Montréal, dans des locaux situés sur le boulevard Décarie, pas très loin de nos bureaux actuels. Nous occuperons au début six des sept étages d'un immeuble qui portera le nom de Zeller; nous pourrons ainsi réunir sous un même toit nos services d'administration et d'achat qui sont présentement dispersés dans quatre locaux différents.

Messieurs E. Leonard Boultbee et R. James Pinchin ont démissionné comme membres du Conseil de Zeller's Limitée, le 12 mars 1970, parce qu'ils désiraient réduire leur activité dans le domaine des affaires. Leurs collègues manqueront beaucoup le précieux concours de ces deux gentlemen. Messieurs Graham R. Dawson, de Vancouver (Colombie-Britannique), et James Gillies, de Toronto (Ontario), ont été élus membres du Conseil lors d'une assemblée des détenteurs d'actions ordinaires tenue le 17 septembre 1970.

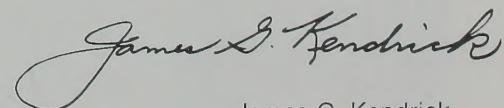
Maître Edmund G. Collard, C.R., secrétaire et conseiller général de Zeller's Limitée depuis 1939, a pris sa retraite au cours de l'année et Maître William W. Tinmouth a été désigné pour le remplacer.

La Compagnie a maintenant près de 9,500 employés; on en compte 375 au siège social tandis que les autres travaillent dans les magasins. Au cours de 1970, 79 employés en stage de formation ont été promus au poste de directeurs adjoints de magasins tandis que 26 adjoints devenaient directeurs de magasins. Le programme de formation des cadres, établi depuis déjà plusieurs années, vise à préparer les employés qui ont démontré

les aptitudes voulues à accéder au poste de directeur de magasin, de directeur régional ou membre des cadres supérieurs au siège social. Le programme de recrutement de 1970 nous a permis d'embaucher 172 étudiants de divers collèges et écoles secondaires à travers le Canada. À la fin de 1970, la Compagnie comptait 278 employés en stage de formation à l'exploitation des magasins ou à l'occupation d'autres postes de commande.

Les résultats obtenus par la Compagnie l'an dernier de même que ses succès et sa croissance soutenus reflètent les efforts et le dévouement de son personnel, auquel nous exprimons notre gratitude. La confiance et la fidélité de nos clients, de nos actionnaires et de nos fournisseurs sont à la base de notre succès; nous les en remercions tout en prenant l'engagement de faire tout notre possible pour demeurer dignes de leur loyauté.

Chaque personne associée à la Compagnie a la volonté et la détermination de la voir continuer à grandir à mesure que les temps changeront. Nous demeurons confiants que l'économie canadienne repose sur des bases solides et qu'elle a la capacité de croître et de progresser. La loyauté et la compétence de nos employés, notre excellente situation financière ainsi que notre ambitieux programme d'expansion, justifient la Compagnie d'avoir l'assurance qu'elle va continuer d'aller de l'avant et qu'elle peut saisir toutes les occasions qui se présenteront.



James G. Kendrick

Montréal (Québec)
le 11 mars 1971

Modern Efficient Merchandising from Coast to Coast



In 1970 Zeller's Limited stepped up its rate of suburban department store growth with the addition of twelve new stores of an average gross area of 73,000 square feet each. The 1970 new store programme increased the number of suburban department stores in operation to thirty-seven, in a period of only eight years from the opening date of the first such department store.

The Zeller's suburban department store carries a broad exciting merchandise assortment which includes many categories of merchandise traditionally found only in full line department stores. Each store has a "Skillet" restaurant and several include an auto service department and a pharmacy. All of the new, large stores offer convenient free parking, self-service check-out shopping, and full credit facilities for the ultimate in customer convenience.



Zeller's merchandising success has depended to a considerable degree on the ability to quickly interpret fashion trends and to translate these trends into timely merchandise assortments. The Company imports some of its fashions directly from Europe and the Orient to broaden the assortments which are available from domestic suppliers. Fashion awareness today has become a prime concern in all our merchandise departments, both soft goods and hard lines. The excitement of new styles and colours is reflected not only in ladies ready-to-wear and sportswear, but also in coloured appliances, decorative dinnerware, bedding and household accessories, and men's furnishings. Supporting the Company's fashion image is its commitment to provide customers with first quality merchandise priced so as to represent recognizable good value and to back up that commitment with a satisfaction guarantee.

During the last five years the number of family formations has increased significantly and, in addition, there has been continued growth of suburban residential development. These two factors have been reflected in customer demands for broader assortments of merchandise for the home. Accommodating customer needs in our larger suburban store facilities, many Zeller's stores now offer wood and upholstered furniture, both large and small electrical appliances, floor coverings, paint and painting supplies, televisions and stereo components, powered and manual hardware, and building supplies for the do-it-yourself home improver. A customer can completely re-fixture his bathroom or remodel his recreation room from the merchandise now available in our newer large suburban stores.





At over 40% of our stores Zeller's customers are able to enjoy inviting "Skillet" restaurants. "Skillet" menus are widely known for their assortment of tempting snacks and full-course meals at reasonable prices. The success of Zeller's food service operation is based on high quality standards, superior value and efficient, friendly service. Menus are devised and tested in our own kitchens, while trained field supervisors regularly visit "Skillet" installations across the country to ensure that menus, recipes, and portions meet Zeller's standards. Most "Skillet" installations accommodate at counters or in booths from 75 to 100 customers. They have proven to be so popular that they are now an important part of each new store that is opened.

At the end of 1970 fifteen Pharmacies were operating in four Canadian provinces. Our plans call for the opening of several additional Pharmacies in 1971, including the expansion of this operation into two additional provinces. Zeller's Pharmacies are staffed by qualified pharmacists who dispense prescriptions and a complete line of patent medicines at competitive prices. The combination of Zeller's merchandising expertise and experienced helpful pharmacists have produced a department which is rapidly growing in productivity.

Zeller's was also operating twelve Auto Bay Service Departments at the end of the year. The primary function of the auto bays is to offer our customers immediate installation of the many automotive accessories, tires, and batteries which are now included in our merchandise assortment. Zeller's Auto Bay Service Departments are staffed with qualified mechanics, who provide the skills required for wheel alignment, tune-ups, muffler installation and other minor repairs.



The key to any successful retail operation lies in its distribution system which enables the merchandise our customers want to be made available when they want it. Zeller's Limited operates a modern automated Distribution Centre of 135,000 square feet in Montreal North, which facilitates bulk domestic purchases and the direct import of goods, which often must arrive in advance of their selling season, to be stored temporarily. The billing and perpetual inventory systems at our Distribution Centre were computerized at the beginning of 1970. Recognizing the need for up-to-date distribution facilities to sustain our planned store expansion, the Company's management is presently researching the need for additional future facilities.

Un programme de commercialisation moderne et efficace partout au pays.



En 1970, Zeller's Limitée a accéléré l'application de son programme d'établissement de grands magasins de banlieue en ouvrant douze magasins ayant une superficie brute moyenne de 73,000 pieds carrés. Les établissements ouverts en 1970 ont porté à trente-sept le nombre de nos grands magasins de banlieue, et ceci huit ans seulement après l'ouverture du premier magasin de ce genre.

Les magasins de banlieue de Zeller's offrent une vaste gamme de produits, dont de nombreux articles qu'on ne trouvait auparavant que dans les grands "magasins à rayons". Chaque établissement comprend un restaurant et plusieurs magasins ont un poste de service pour automobilistes et une pharmacie. Les nouveaux grands établissements modernes offrent toutes commodités à leur clientèle, y compris le stationnement gratuit, le libre service et un système de crédit complet.

Le succès de Zeller's en matière de commercialisation tient en grande partie à sa grande habileté à analyser rapidement les tendances de la mode et à y adapter ses stocks en temps opportun. Comme complément du choix qu'elle peut obtenir de ses fournisseurs canadiens, la Compagnie importe des collections directement d'Europe et de l'Orient. Dans tous les rayons de nos magasins, on prend le plus grand soin de suivre la mode tant en ce qui a trait aux vêtements qu'aux articles d'usage courant. Les nouveaux styles et couleurs fantaisistes s'expriment non seulement dans le prêt-à-porter et les vêtements sport pour dames mais encore dans les appareils ménagers, la vaisselle décorative, la literie et les accessoires pour le foyer ainsi que les produits pour hommes. La réputation de la Compagnie d'être au fait de la mode repose sur son désir d'offrir à ses clients des produits de la plus haute qualité à des prix qui sont de toute évidence avantageux ainsi qu'une garantie ferme de satisfaction complète.

Depuis cinq ans, le nombre des nouvelles familles a considérablement augmenté et, de plus, la tendance à résider en banlieue a continué de s'accentuer. Ces deux facteurs ont fait que la clientèle exige un choix sans cesse plus vaste d'articles et de produits pour le foyer. Afin de répondre aux exigences de leurs clients, plusieurs des plus grands magasins de banlieue de Zeller's vendent aujourd'hui des meubles rembourrés et en bois, de gros et de petits appareils électriques, des couvre-planchers, de la peinture et des fournitures connexes, des téléviseurs et des éléments d'installations stéréophoniques, des outils manuels et électriques ainsi que des matériaux de construction pour le propriétaire





bricoleur. On trouve maintenant dans nos nouveaux grands magasins de banlieue absolument tout ce qu'il faut pour refaire à neuf une salle de bains ou transformer une salle de jeu.

Les restaurants aménagés dans plus de 40% de nos magasins, font les délices de la clientèle. Ces restaurants ont acquis la réputation d'avoir, tant pour les goûters que pour les repas complets, des menus variés qui font venir l'eau à la bouche et dont les prix sont abordables. Le succès des restaurants de Zeller's repose sur des normes de qualité très strictes, des prix raisonnables et un service courtois et affable. Les menus sont conçus et éprouvés dans nos propres cuisines tandis que des inspecteurs spécialement formés visitent régulièrement les restaurants à travers le pays afin de s'assurer que les menus, les plats et les portions sont conformes à nos normes. La plupart des restaurants peuvent recevoir à leur comptoir ou à leurs tables de 75 à 100 clients à la fois; ils sont devenus tellement en vogue qu'ils occupent maintenant une place importante dans tous les nouveaux magasins que nous ouvrons.

A la fin de 1970, nous exploitons quinze pharmacies réparties dans quatre provinces. Nous avons prévu d'ouvrir plusieurs autres pharmacies en 1971 et d'étendre à deux autres provinces notre activité dans ce domaine. Les pharmacies Zeller's comptent sur des pharmaciens qualifiés pour remplir les ordonnances et offrir un choix complet de médicaments brevetés, à des prix qui soutiennent la concurrence. En raison des vastes connaissances de Zeller's en matière de commercialisation et de la précieuse expérience de ses pharmaciens, ce champ d'activité prend très rapidement de l'ampleur.

Zeller's exploitait également douze postes de service pour automobilistes à la fin de 1970. Le but principal de ces postes est de permettre aux automobilistes de faire installer immédiatement les nombreux accessoires ainsi que les pneus et batteries que nous offrons maintenant en vente. Le service à ces postes est assuré par des mécaniciens qualifiés qui possèdent la compétence voulue pour faire l'alignement des roues, les mises au point, l'installation des silencieux et autres petites réparations.



La clé du succès de tout commerce de détail réside dans un système de distribution qui permet d'offrir sans délai aux clients les produits dont ils ont besoin. Zeller's Limitee compte un centre de distribution moderne et automatisé de 135,000 pieds carrés à Montréal-Nord qui facilite les achats en vrac au pays ainsi que l'importation directe et l'entreposage des produits qui doivent souvent être en stock avant la saison de vente. Les systèmes de facturation et d'inventaire perpétuel du centre de distribution ont été programmés sur ordinateur au début de 1970. Consciente du fait qu'elle doit compter sur des services de distribution efficaces pour poursuivre son programme de multiplication de ses magasins, la Compagnie cherche présentement à établir quelles seront les nouvelles installations dont elle aura besoin dans l'avenir.



ZELLER'S LIMITED
and subsidiary companies

Consolidated Balance Sheet

as at January 31, 1971 (with 1970 figures for comparison)

ASSETS

CURRENT ASSETS:

	1971	1970
Cash	\$ 3,078,067	\$ 3,114,383
Accounts receivable (Note 1)	31,511,718	30,427,188
Inventories — at the lower of cost or net realizable value	31,551,944	23,455,838
Prepaid expenses and supplies	550,989	556,462
Total current assets	66,692,718	57,553,871
PREFERRED STOCK PURCHASE FUND — cash on deposit	100,000	100,000

FIXED ASSETS — at cost:

Buildings	1,023,492	1,116,493
Fixtures and equipment	25,069,851	20,766,205
Improvements to leasehold premises	9,213,085	8,805,812
	35,306,428	30,688,510
Less accumulated depreciation and amortization	19,191,664	17,415,965
	16,114,764	13,272,545
Land	347,318	382,318
Net fixed assets	16,462,082	13,654,863

Approved by the Board:

JAMES G. KENDRICK, Director.
ROLAND CHAGNON, Director.

TOTAL **\$83,254,800**

\$71,308,734

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
CURRENT LIABILITIES:		
Bank indebtedness	\$ 4,000,000	\$ —
Notes payable	8,971,000	5,827,000
Accounts payable, trade	7,620,886	6,774,558
Accrued and other liabilities	4,080,485	3,296,500
Income and other taxes (Note 5)	1,424,608	2,152,646
Current portion of sinking fund debentures	265,000	240,000
Total current liabilities	26,361,979	18,290,704
 SINKING FUND DEBENTURES (Note 2)	10,720,000	11,240,000
 DEFERRED INCOME TAXES (Note 5)	510,000	340,000
 SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Authorized:		
100,000 4½% cumulative preferred shares of a par value of \$50 each redeemable at 101% of par		
13,600,000 common shares of no par value		
Issued and fully paid:		
58,926 preferred shares	2,946,300	3,088,750
12,667,545 common shares	5,359,406	5,184,405
	8,305,706	8,273,155
 Preferred stock purchase reserve (Note 4)	2,053,700	1,911,250
 Retained earnings (Note 2)	35,303,415	31,253,625
Total shareholders' equity	45,662,821	41,438,030
 TOTAL	\$83,254,800	\$71,308,734

The accompanying notes are an integral part of the financial statements.



ZELLER'S LIMITED
and subsidiary companies

Consolidated Statement of Income and Retained Earnings

for the year ended January 31, 1971
(with 1970 figures for comparison)

	1971	1970
SALES	\$176,602,888	\$157,562,134
Deduct:		
Cost of goods sold and operating expenses, exclusive of items shown hereunder	\$157,946,375	\$140,455,537
Depreciation and amortization	2,013,724	1,848,057
Debenture interest	704,150	735,406
INCOME BEFORE INCOME TAXES	15,938,639	14,523,134
INCOME TAXES (Note 5)	8,360,000	7,700,000
NET INCOME FOR THE YEAR	7,578,639	6,823,134
Add:		
Retained earnings at beginning of the year	31,253,625	27,698,752
Discount on preferred shares redeemed	39,917	37,757
	31,293,542	27,736,509
	38,872,181	34,559,643
Deduct:		
Dividends:		
Preferred shares	134,898	140,955
Common shares	3,291,418	3,028,863
	3,426,316	3,169,818
Appropriation to preferred stock purchase reserve	142,450	136,200
	3,568,766	3,306,018
RETAINED EARNINGS AT END OF THE YEAR	\$ 35,303,415	\$ 31,253,625

The accompanying notes are an integral part of the financial statements.



ZELLER'S LIMITED
and subsidiary companies

Consolidated Statement of Source and Application of Funds

for the years ended January 31

	1971	1970	1969	1968	1967	Total 5 Years
WHERE FUNDS CAME FROM						
(Amounts in Thousands)						
Net income for the year	\$ 7,579	\$ 6,823	\$ 6,403	\$ 6,124	\$ 4,838	\$31,767
Depreciation and amortization (no cash outlay)	2,014	1,848	1,633	1,482	1,383	8,360
Deferred income taxes (no cash outlay)	170	180	160	—	—	510
Net proceeds 7% debentures	—	—	—	—	5,828	5,828
Disposal of fixed assets	113	538	145	158	—	954
Sale of common shares to employees	175	321	488	541	218	1,743
Proceeds of stock dividend	—	—	—	5	27	32
Total funds provided	\$10,051	\$ 9,710	\$ 8,829	\$ 8,310	\$12,294	\$49,194
HOW FUNDS WERE USED						
(Amounts in Thousands)						
Dividends paid to shareholders	\$ 3,426	\$ 3,170	\$ 2,922	\$ 2,348	\$ 2,026	\$13,892
Purchase of fixtures and improvements	4,934	2,395	3,028	1,609	2,198	14,164
Redemption of debentures and current portion ..	520	765	377	394	102	2,158
Redemption of preferred shares	103	98	452	92	102	847
Special refundable tax	—	—	(303)	73	230	—
Total funds used	\$ 8,983	\$ 6,428	\$ 6,476	\$ 4,516	\$ 4,658	\$31,061
Increase in working capital	1,068	3,282	2,353	3,794	7,636	\$18,133
Working capital at year end	\$40,331	\$39,263	\$35,981	\$33,628	\$29,834	

The accompanying notes are an integral part of the financial statements.

ZELLER'S LIMITED and subsidiary companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1971

	<u>1971</u>	1970
1. Accounts receivable:		
Customer instalment and charge accounts	<u>\$33,389,351</u>	\$32,401,406
Other accounts	<u>813,664</u>	941,909
	<u><u>34,203,015</u></u>	<u>33,343,315</u>
Less allowances for doubtful accounts and unearned service charges	<u>2,691,297</u>	2,916,127
	<u><u>\$31,511,718</u></u>	<u><u>\$30,427,188</u></u>
2. Sinking fund debentures:		
Series A, 6% maturing November 1, 1977	<u>\$ 1,391,000</u>	\$ 1,522,000
Series B, 5½% maturing June 1, 1982	<u>4,200,000</u>	4,400,000
Series C, 7% maturing November 15, 1986	<u>5,394,000</u>	5,558,000
	<u><u>10,985,000</u></u>	<u>11,480,000</u>
Less current portion included in current liabilities	<u>265,000</u>	240,000
	<u><u>\$10,720,000</u></u>	<u><u>\$11,240,000</u></u>

Debentures are redeemable in whole or in part at the option of the company at any time prior to maturity. During the next five years sinking fund payments required by the trust deeds are \$265,000 for the year ending January 31, 1972 and \$520,000 per annum for the succeeding four years.

The company has covenanted that while any of the debentures remain outstanding it will not pay any dividends other than stock dividends on its common shares which would reduce the consolidated retained earnings to an amount less than \$13,000,000; retained earnings at January 31, 1971 are \$35,303,415.

3. Capital stock:

(a) Under the terms of the Employees' Stock Purchase Plan (1961), the company was authorized to grant to employees options to purchase up to 800,000 common shares of the company at prices not less than 90% of the average market price of the shares during the month prior to that in which options were exercised. Options must be exercised not later than two years from date of grant and payment must be made in full within 10 years from the date that any option is exercised.

As at January 31, 1971 options had been granted on 793,800 shares of which 667,545 shares had been paid for in full and issued, 123,200 shares are in process of payment (including 23,160 shares for employees who are officers, three of whom are also directors) and 3,055 shares are covered by outstanding options which expire in May, 1971.

(b) During the year ended January 31, 1971:—
2,849 preferred shares were purchased for cancellation;
31,220 common shares were issued under the Employees' Stock Purchase Plan for a cash consideration of \$175,001.

4. Preferred stock purchase reserve:

The preferred stock purchase reserve was increased during the year by \$142,450 appropriated from retained earnings in respect of preferred shares purchased for cancellation.

5. Deferred income taxes:

During the year ended January 31, 1969, the company converted from the taxes payable to the tax allocation basis of computing the provision for income taxes.

For the year ended January 31, 1971 accounting income exceeds income for tax purposes by \$318,000 and the resulting reduction of \$170,000 in income taxes currently payable has been charged to income as part of the provision for income taxes and set aside on the balance sheet as deferred income taxes.

For the years prior to 1969 the net accumulated total of such differences between accounting and taxable income amounts to \$1,190,000 and the related unrecorded deferred taxes to \$630,000.

6. Remuneration of directors and officers:

For the year ended January 31, 1971 thirteen directors received \$18,150 as directors (1970 — \$16,516); eight officers received \$551,250 as officers (1970 — \$510,433); four of the officers were also directors.

7. Long-term leases:

Minimum annual rentals under long-term leases, the longest of which will expire in 1998, amount to approximately \$7,300,000.

Auditors' report

To the Shareholders of Zeller's Limited:

We have examined the consolidated balance sheet of Zeller's Limited and Subsidiary Companies as at January 31, 1971 and the consolidated statements of income and retained earnings, and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, HASKINS & SELLS
Auditors.

March 5, 1971.

ZELLER'S LIMITÉE et ses filiales

NOTES AUX ÉTATS FINANCIERS CONSOLIDÉS

LE 31 JANVIER 1971

	<u>1971</u>	<u>1970</u>
1. Comptes à recevoir :		
Comptes courants et à tempérament des clients ..	\$33,389,351	\$32,401,406
Autres comptes	813,664	941,909
	<u>34,203,015</u>	33,343,315
Moins provisions pour créances douteuses et pour frais d'administration non gagnés	2,691,297	2,916,127
	<u>\$31,511,718</u>	<u>\$30,427,188</u>
2. Débentures à fonds d'amortissement :		
Séries A, 6% échéant le 1er novembre 1977	\$ 1,391,000	\$ 1,522,000
Séries B, 5½ % échéant le 1er juin 1982	4,200,000	4,400,000
Séries C, 7% échéant le 15 novembre 1986	5,394,000	5,558,000
	<u>10,985,000</u>	<u>11,480,000</u>
Moins partie courante inclus dans les exigibilités	265,000	240,000
	<u>\$10,720,000</u>	<u>\$11,240,000</u>

Les débentures sont remboursables entièrement ou en partie, en tout temps avant l'échéance, au choix de la compagnie. Au cours des cinq prochaines années les paiements au fonds d'amortissement, tel que requis par l'acte fiduciaire, sont de \$265,000 pour l'année terminée le 31 janvier 1972 et de \$520,000 annuellement pour les quatre années qui suivent.

La compagnie a stipulé par contrat, qu'aussi longtemps que les débentures demeureront en circulation, elle ne paiera pas de dividendes, autre que des dividendes en actions, sur ses actions ordinaires qui réduirait les bénéfices non répartis consolidés à un montant moindre que \$13,000,000; les bénéfices non répartis au 31 janvier 1971 sont de \$35,303,415.

3. Capital-actions :

(a) Selon les termes du plan d'achat d'actions (1961) des employés, la compagnie était autorisée à accorder aux employés des options pour l'achat d'actions jusqu'à concurrence de 800,000 actions ordinaires de la compagnie, à des coûts non moindre que 90% du coût moyen du marché des actions durant le mois précédent celui dans lequel les options ont été exercées. Les options doivent être exercées au plus tard dans les deux ans suivant leurs dates d'émission et le paiement complet doit être fait dans les dix ans suivant la date que toute option est exercée.

Au 31 janvier 1971 des options avaient été accordées sur 793,800 actions dont 667,545 actions avaient été payées au complet et émises, 123,200 actions sont en cours d'être payées (y compris 23,160 actions pour employés qui sont officiers dont trois sont administrateurs) et 3,055 actions sont couvertes par des options en circulation qui expirent au mois de mai 1971.

(b) Au cours de l'année terminée le 31 janvier 1971:—
2,849 actions privilégiées ont été achetées pour être annulées;
31,220 actions ordinaires ont été émises, selon le plan d'achat d'actions des employés, pour une considération en espèce de \$175,001.

4. Réserve pour rachat d'actions privilégiées:
La réserve pour rachat d'actions privilégiées a été augmentée au cours de l'année de \$142,450 viré des bénéfices non répartis pour couvrir les actions privilégiées rachetées et annulées.

5. Impôts différés sur le revenu :
Au cours de l'année terminée le 31 janvier 1969, la compagnie a adopté la méthode de la répartition d'impôt pour le calcul de la provision pour impôts sur le revenu. Auparavant la méthode employée était celle de l'impôt à payer.

Pour l'année terminée le 31 janvier 1971, les revenus aux livres excèdent les revenus aux fins d'impôts par \$318,000 et la réduction de \$170,000 dans les impôts courant à payer qui en résulte a été débitée au revenu dans la provision pour impôts sur le revenu et est montrée au bilan sous la rubrique impôts différés sur le revenu.

Pour les années antérieures à 1969, le montant cumulatif net de ces différences entre les revenus aux livres et pour fins d'impôts, se chiffre à \$1,190,000 et les impôts différés, s'y rapportant, se chiffrent à \$630,000.

6. Rémunération des administrateurs et officiers:
Au cours de l'année terminée le 31 janvier 1971, treize administrateurs ont touché \$18,150 à ce titre (\$16,516 en 1970); huit officiers ont touché \$551,250 à ce titre (\$510,433 en 1970), quatre des officiers étaient également administrateurs.

7. Baux à long terme :
Les loyers annuels minimum, en ce qui a trait aux baux à long terme, se chiffrent à approximativement \$7,300,000. Le plus long de ces baux se termine en 1998.

Rapport des vérificateurs

Aux actionnaires de Zeller's Limitée :

Nous avons examiné le bilan consolidé de Zeller's Limitée et ses filiales au 31 janvier 1971, l'état consolidé du revenu et des bénéfices non répartis ainsi que l'état consolidé de la provenance et de l'utilisation des fonds pour l'année terminée à cette date. Notre examen a été fait conformément aux normes de vérification généralement reconnues et, par conséquent, a comporté tels sondages des registres comptables et autres procédés de vérification que nous avons considérés comme nécessaires dans les circonstances.

A notre avis, ces états financiers consolidés présentent fidèlement la situation financière des compagnies au 31 janvier 1971 ainsi que les résultats de leur exploitation et la provenance et l'utilisation de leurs fonds pour l'année terminée à cette date, conformément aux principes comptables généralement reconnus, appliqués de la même manière qu'au cours de l'année précédente.

DELOITTE, HASKINS & SELLS
Vérificateurs.

le 5 mars 1971

RETAILERS TO THRIFTY CANADIANS

ONTARIO

Barrie
Belleville
Brantford
Brockville
Chatham (2)
Cobourg
Cornwall (2)
Galt
Grimsby
Guelph (2)
Hamilton (3)

Kingston (2)
Kitchener (2)
Lindsay
London (2)
Midland
Newmarket
Niagara Falls
North Bay
Orillia
Oshawa (2)
Ottawa (2)

Pembroke
Peterborough
St. Catharines (3)
St. Thomas
Sarnia
Sudbury (2)
Thunder Bay (4)
Toronto Area (10)
Trenton
Waterloo

WESTERN CANADA

Winnipeg (4)
Moose Jaw
Regina
Saskatoon
Yorkton

Calgary (4)
Edmonton (3)
Lethbridge
Burnaby (2)
Kamloops

New Westminster
North Surrey
Port Alberni
Richmond
Victoria

QUEBEC

Alma
Chateauguay
Chicoutimi (2)
Drummondville
Gatineau
Granby

Hull
Jonquière
Laval
Montreal Island (8)
Québec (4)
Repentigny

Rimouski
Sherbrooke (2)
Sept-Iles
Sorel
St. Eustache
Trois-Rivières

ATLANTIC PROVINCES

Bridgewater
Dartmouth
Halifax (2)
Kentville
New Glasgow

Sydney
Truro (2)
Yarmouth
Charlottetown
Bathurst

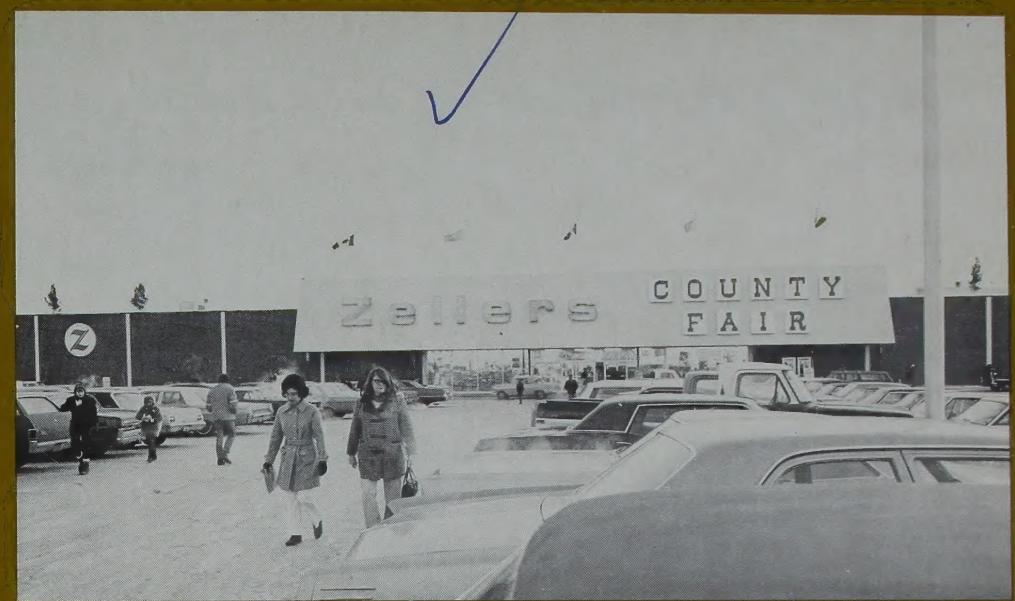
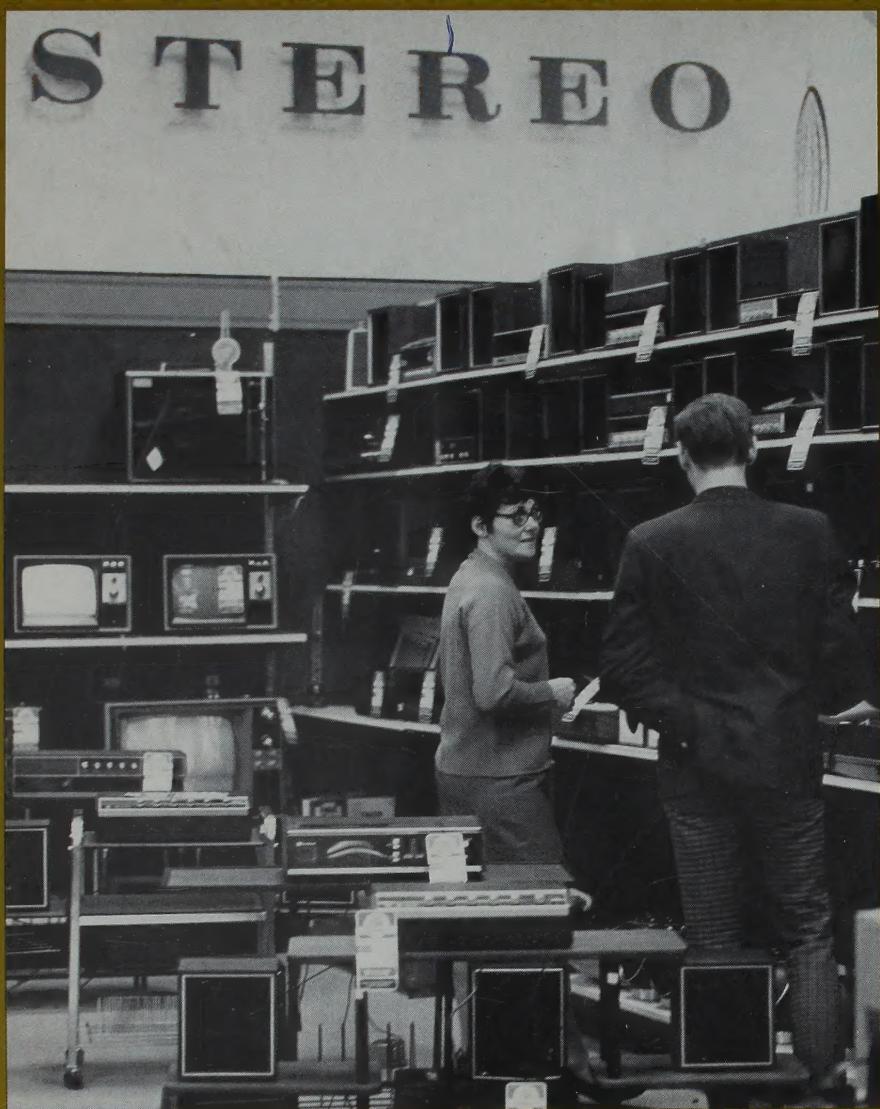
Fredericton (2)
Moncton
Newcastle
Saint John, N.B.
St. John's, Nfld.

Department Stores

Of the 129 store locations in operation at the year end, 37 are large, suburban department stores. The ▼'s on the map indicate the cities in which the suburban department stores are located. The first such suburban department store was opened in October, 1962 in Guelph, Ontario. Two additional department stores were opened in each of the next three years as the Company's Management measured the productivity and profitability of this new type of store. Customer acceptance of this new shopping facility and the resulting sales productivity were indeed gratifying. In 1970 twelve large stores of an average gross floor area of 73,000 square feet were opened and all new stores to be opened in 1971 will be of this type.

Pharmacies and Auto Service Bays

At many of our suburban department store locations, customers can expect to find a Pharmacy and an Auto Bay Service Department. At the end of the last fiscal year, there were 15 Pharmacies and 12 Auto Bay Service Departments in operation. Zeller's Pharmacies are staffed by qualified pharmacists and offer a complete selection of patent medicines as well as professional prescription services. The Auto Service Bays provide, in addition to wheel balancing and alignment facilities, expert installation of tires, batteries, mufflers and the many auto accessory items now sold in our suburban department stores.



Western Canada

10

Ontario

15

Quebec

7

Atlantic Provinces

5

Legend

- Cities with one or more Zeller's stores
- ◆ Cities with department stores
- ▽ Number of department stores by province or region

Highlights of Growth five years and 1961 for comparison

	1970	1969	1968	1967	1966	1961
OPERATING ITEMS						
SALES	\$176,603	\$157,562	\$142,873	\$132,740	\$117,150	\$62,874
Number of Stores at Year-End	129	119	119	112	110	94
Average Sales per Store	1,369	1,324	1,201	1,185	1,065	669
Employees' Compensation and Benefits	32,390	28,284	25,511	22,706	20,123	11,542
Percent of Sales Dollar	18.34	17.95	17.86	17.11	17.18	18.35
Depreciation Charge	2,014	1,848	1,633	1,482	1,383	961
Income before Income Taxes	15,939	14,523	13,433	12,899	9,868	3,484
Percent of Sales Dollar	9.03	9.22	9.40	9.72	8.42	5.54
Net Income	7,579	6,823	6,403	6,124	4,838	1,904
Percent of Sales Dollar	4.29	4.33	4.48	4.61	4.13	3.03
SHAREHOLDER ITEMS						
Earnings per Common Share59	.53	.50	.48	.38	.14
Dividend per Common Share26	.24	.22	.17½	.15	.08¾
Equity per Common Share	3.37	3.03	2.73	2.41	2.09	1.38
FINANCIAL ITEMS						
Cash	3,078	3,114	2,484	2,340	1,587	2,036
Merchandise Inventories	31,552	23,456	22,128	18,762	17,120	8,935
Accounts Receivable (Net)	31,512	30,427	28,374	24,635	20,713	5,266
Working Capital	40,331	39,263	35,981	33,628	29,834	11,206
Capital Expenditures	4,934	2,395	3,028	1,609	2,198	2,215

All figures expressed in thousands of dollars except as otherwise indicated and adjusted where applicable for the four-for-one subdivision of shares on May 22, 1964 and again on May 10, 1968.



Zeller's

FOUNDED IN MONTREAL IN 1931